

CITY OF FAIRBANK, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2008

TABLE OF CONTENTS

Officials		<u>Page</u> 1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-8
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Activities and Net Assets--Cash Basis	A	9
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	10
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	11
Notes to Financial Statements		12-17
Required Supplementary Information:		
Budgetary Comparison of Schedule of Receipts, Disbursements and Changes in Balances-- Budget and Actual (Cash Basis)--All Governmental Funds and Proprietary Funds		18
Notes to Required Supplementary Information--Budgetary Reporting		19
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances--Non-major Governmental Funds	1	20
Schedule of Indebtedness	2	21
Bond and Note Maturities	3	22
Schedule of Receipts by Sources and Disbursements by Function--All Governmental Funds	4	23
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		24-25
Schedule of Findings		26-28

City of Fairbank, Iowa

Officials

<u>Name</u>	<u>Title</u> (Before January 2008)	<u>Term Expires</u>
Maurice Welsh	Mayor	Jan 2008
Mary Kay Frost	Council Member	Jan 2010
Jason Kayser	Council Member	Jan 2008
Dean Mangrich	Council Member	Jan 2010
Bob Shields	Council Member	Jan 2010
Ron Woods	Council Member	Jan 2008
(After January 2008)		
Maurice Welsh	Mayor	Jan 2010
Mary Kay Frost	Council Member	Jan 2010
Jason Kayser	Council Member	Jan 2012
Dean Mangrich	Council Member	Jan 2010
Bob Shields	Council Member	Jan 2010
Ron Woods	Council Member	Jan 2012
Ted Vorwald	Utility Superintendent	Jan 2009
Dave Ryan	Assistant Public Works Director	Jan 2009
Marlene Strempeke	City Clerk	Jan 2009
Mary Lou Fink	Treasurer	Jan 2009
Carter Stevens & Heather Prendergast	Attorney	Jan 2009

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairbank, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairbank's City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2007.

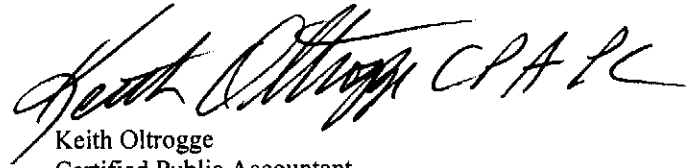
In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Fairbank as of and for the year ended June 30, 2008 on the basis of accounting described in Note 1.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairbank as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my reports dated November 26, 2008 on my consideration of the City of Fairbank's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 18 through 19 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairbank's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Keith Oltrogge
Certified Public Accountant

November 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Fairbank provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1% or \$6,030 from fiscal 2007 to fiscal 2008.
- Disbursements increased 21.7%, or \$221,966, in fiscal 2008 from fiscal 2007. Debt services and Capital projects disbursements increased \$149,921 and \$78,507.
- The City's total cash basis net assets decreased 11.9%, or \$175,160 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased \$272,885 and the assets of the business type activities increased by \$97,725.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include utilities, the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the water, sewer, electric, natural gas and solid waste funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

3. Fiduciary funds accounts for the City's Permanent Funds. The permanent funds are trust funds set up for the care of the cemetery.

The City is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, increasing from \$742,197 to \$469,312. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year Ended June 30, 2008
Receipts and transfers:		
Program receipts:		
Charges for service	\$	110,680
Operating grants, contributions and restricted interest		144,763
Capital grants, contributions and restricted interest		-
General receipts:		
Property tax		435,695
Local option sales tax		69,347
Grants and contributions not restricted to specific purposes		12,783
Unrestricted investment earnings		24,124
Other general receipts		3,146
Transfers, net		-52,000
Total receipts and transfers	\$	748,538
Disbursements:		
Public safety	\$	134,348
Public works		119,031
Health and social services		975
Culture and recreation		141,354
Community and economic development		2,139
General government		32,124
Debt service		332,166
Capital projects		259,286
Total disbursements	\$	1,021,423
Decrease in cash basis net assets	\$	-272,885
Cash basis net assets beginning of year		742,197
Cash basis net assets end of year	\$	469,312

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30, 2008
Receipts:	
Program receipts:	
Operating grants, contributions and restricted interest	\$ 4,164
Charges for service:	
Solid waste	54,009
Water	68,445
Sewer	107,738
Natural gas	553,691
Electric	666,540
General receipts:	
Unrestricted interest on investments	19,883
Other general receipts	31,528
Transfers	52,000
Total receipts and transfers	<u>\$ 1,557,998</u>
Disbursements and transfers:	
Solid waste	\$ 50,304
Water	152,373
Sewer	87,023
Natural gas	542,292
Electric	628,281
Total disbursements	<u>\$ 1,460,273</u>
Increase in cash balance	\$ 97,725
Cash basis net assets beginning of year	<u>735,134</u>
Cash basis net assets end of year	<u>\$ 832,859</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Fairbank completed the year, its governmental funds reported a combined fund balance of \$469,312, a decrease of \$272,855 below last year's total of \$742,197.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on January 14, 2008 and resulted in an increase in operating disbursements related to a cost overrun of \$443,050 on various projects. The second amendment was approved on May 7, 2008 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$947,900 in other long-term debt, compared to \$1,121,909 last year, as shown below.

Outstanding Debt at Year-End			
		June 30,	
		2008	2007
Urban renewal tax increment financing revenue bonds		\$ 888,920	\$ 896,644
Revenue bonds		59,040	135,265
Total		\$ 947,960	\$ 1,121,909

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marlene Strempeke, City Clerk, 116 East Main Street, Fairbank IA 50629-0447.

Basic Financial Statements

City of Fairbank, Iowa

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 134,348	\$ 34,975	\$ 26,308	\$ -
Public works	119,031	602	104,473	-
Health and social services	975	-	-	-
Culture and recreation	141,354	43,437	13,982	-
Community and economic development	2,139	-	-	-
General government	32,124	31,666	-	-
Debt service	332,166	-	-	-
Capital projects	259,286	-	-	-
Total governmental activities	\$ 1,021,423	\$ 110,680	\$ 144,763	\$ -
Business type activities:				
Water	\$ 152,373	\$ 68,445	\$ -	\$ -
Sewer	87,023	107,738	-	-
Electric	628,281	666,540	-	-
Natural gas	542,292	553,691	-	-
Solid waste	50,304	54,009	4,164	-
Total business type activities	\$ 1,460,273	\$ 1,450,423	\$ 4,164	\$ -
Total	\$ 2,481,696	\$ 1,561,103	\$ 148,927	\$ -
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Unrestricted				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ -73,065	\$ -	\$ -73,065
-13,956	-	-13,956
-975	-	-975
-83,935	-	-83,935
-2,139	-	-2,139
-458	-	-458
-332,166	-	-332,166
-259,286	-	-259,286
\$ -765,980	\$ -	\$ -765,980
\$ -	\$ -83,928	\$ -83,928
-	20,715	20,715
-	38,259	38,259
-	11,399	11,399
-	7,869	7,869
\$ -	\$ -5,686	\$ -5,686
\$ -765,980	\$ -5,686	\$ -771,666
\$ 134,610	\$ -	\$ 134,610
301,085	-	301,085
69,347	-	69,347
24,124	19,883	44,007
15,929	31,528	47,457
-52,000	52,000	-
\$ 493,095	\$ 103,411	\$ 596,506
\$ -272,885	\$ 97,725	\$ -175,160
742,197	735,134	1,477,331
\$ 469,312	\$ 832,859	\$ 1,302,171
\$ 469,312	\$ 832,859	\$ 1,302,171

City of Fairbank, Iowa

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2008

		Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts:				
Property tax	\$ 126,775	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	301,085	-
Other city tax	4,606	-	-	69,347
Licenses and permits	2,662	-	-	-
Use of money and property	45,059	-	979	4,767
Intergovernmental	55,578	89,185	-	-
Charges for service	52,556	-	-	-
Special assessments	602	-	-	-
Miscellaneous	21,256	-	-	-
Total receipts	\$ 309,094	\$ 89,185	\$ 302,064	\$ 74,114
Disbursements:				
Operating:				
Public safety	\$ 134,348	\$ -	\$ -	\$ -
Public works	24,986	94,045	-	-
Health and social services	975	-	-	-
Culture and recreation	141,263	-	-	-
Community and economic development	349	-	1,790	-
General government	32,124	-	-	-
Debt service	-	-	332,166	-
Capital projects	-	-	-	-
Total disbursements	\$ 334,045	\$ 94,045	\$ 333,956	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ -24,951	\$ -4,860	\$ -31,892	\$ 74,114
Other financing sources (uses):				
Operating transfers in	\$ 28,245	\$ -	\$ 100,000	\$ -
Operating transfers out	-87,000	-	-100,000	-255,000
Total other financing sources (uses)	\$ -58,755	\$ -	\$ -	\$ -255,000
Net change in cash balances	\$ -83,706	\$ -4,860	\$ -31,892	\$ -180,886
Cash balances beginning of year	195,837	23,890	157,662	206,298
Cash balances end of year	\$ 112,131	\$ 19,030	\$ 125,770	\$ 25,412
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 112,131	\$ -	\$ -	\$ -
Special revenue funds	-	19,030	125,770	25,412
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 112,131	\$ 19,030	\$ 125,770	\$ 25,412

See notes to financial statements.

Special		Other Non-Major Governmental Funds		Total
Fire Trust	Capital Projects			
\$ -	\$ -	\$ 3,229	\$	130,004
-	-	-		301,085
-	-	-		73,953
-	-	-		2,662
1,421	1,872	1,164		55,262
-	-	-		144,763
15,145	-	1,250		68,951
-	-	-		602
-	2,000	-		23,256
\$ 16,566	\$ 3,872	\$ 5,643	\$	800,538
\$ -	\$ -	\$ -	\$	134,348
-	-	-		119,031
-	-	-		975
-	-	91		141,354
-	-	-		2,139
-	-	-		32,124
-	-	-		332,166
-	259,286	-		259,286
\$ -	\$ 259,286	\$ 91	\$	1,021,423
\$ 16,566	\$ -255,414	\$ 5,552	\$	-220,885
\$ -	\$ 265,000	\$ -	\$	393,245
-	-	-3,245		-445,245
\$ -	\$ 265,000	\$ -3,245	\$	-52,000
\$ 16,566	\$ 9,586	\$ 2,307	\$	-272,885
44,715	71,043	42,752		742,197
\$ 61,281	\$ 80,629	\$ 45,059	\$	469,312
\$ -	\$ -	\$ -	\$	112,131
61,281	-	-		231,493
-	80,629	-		80,629
-	-	45,059		45,059
\$ 61,281	\$ 80,629	\$ 45,059	\$	469,312

City of Fairbank, Iowa

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds**

As of and for the year ended June 30, 2008

	Enterprise Funds		
	Solid Waste	Water	Sewer
Operating receipts:			
Use of money and property	\$ -	\$ -	\$ -
Charges for service	53,969	68,335	107,686
Total operating receipts	<u>\$ 53,969</u>	<u>\$ 68,335</u>	<u>\$ 107,686</u>
Operating disbursements:			
Business type activities	\$ 50,304	\$ 65,175	\$ 87,023
Total operating disbursements	<u>\$ 50,304</u>	<u>\$ 65,175</u>	<u>\$ 87,023</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 3,665</u>	<u>\$ 3,160</u>	<u>\$ 20,663</u>
Non-operating receipts (disbursements):			
License/Permits	\$ -	\$ -	\$ -
Special assessments	40	110	52
Intergovernmental	4,164	-	-
Interest on investments	389	750	1,464
Miscellaneous	132	493	584
Debt service	-	-	-
Capital projects	-	-87,198	-
Total non-operating receipts (disbursements)	<u>\$ 4,725</u>	<u>\$ -85,845</u>	<u>\$ 2,100</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 8,390</u>	<u>\$ -82,685</u>	<u>\$ 22,763</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ 98,775	\$ -
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 98,775</u>	<u>\$ -</u>
Net change in cash balances	\$ 8,390	\$ 16,090	\$ 22,763
Cash balances beginning of year	<u>32,539</u>	<u>42,758</u>	<u>123,489</u>
Cash balances end of year	<u>\$ 40,929</u>	<u>\$ 58,848</u>	<u>\$ 146,252</u>
Cash Basis Fund Balances			
Unreserved	\$ -	\$ -	\$ -
Total cash basis fund balances	<u>\$ 40,929</u>	<u>\$ 58,848</u>	<u>\$ 146,252</u>

See notes to financial statements.

Enterprise Funds		
Electric	Natural Gas	Total
\$ 25,280	\$ -	\$ 25,280
666,540	553,436	1,449,966
\$ 691,820	\$ 553,436	\$ 1,475,246
\$ 616,281	\$ 475,632	\$ 1,294,415
\$ 616,281	\$ 475,632	\$ 1,294,415
\$ 75,539	\$ 77,804	\$ 180,831
\$ -	\$ 255	\$ 255
-	-	202
-	-	4,164
17,280	-	19,883
3,570	1,469	6,248
-12,000	-66,660	-78,660
-	-	-87,198
\$ 8,850	\$ -64,936	\$ -135,106
\$ 84,389	\$ 12,868	\$ 45,725
\$ -	\$ -	\$ 98,775
-46,775	-	-46,775
\$ -46,775	\$ -	\$ 52,000
\$ 37,614	\$ 12,868	\$ 97,725
470,972	65,376	735,134
\$ 508,586	\$ 78,244	\$ 832,859
\$ -	\$ -	\$ -
\$ 508,586	\$ 78,244	\$ 832,859

City of Fairbank, Iowa

Notes to Financial Statements

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fairbank is a political subdivision of the State of Iowa located in Buchanan and Fayette Counties and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, electric, natural gas, solid waste and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairbank has included all funds, organizations, agencies, board, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: County Assessor's Conference Board, City Assessor's Conference Board, County Emergency Management Commission, County Landfill Commission and County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$113,901 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$37,500	\$19,313	\$23,049	\$112	\$60,549	\$19,425
2010	37,500	21,790	12,000	-	49,500	21,790
2011	137,500	22,968	12,000	-	149,500	22,968
2012	137,500	20,101	12,000	-	149,500	20,101
2013	137,500	16,724	-	-	137,500	16,724
2014	137,500	13,001	-	-	137,500	13,001
2015	137,500	8,879	-	-	137,500	8,879
2016	126,420	4,369	-	-	126,420	4,369
	\$888,920	\$127,145	\$59,049	\$112	\$947,969	\$127,257

The urban renewal tax increment financing revenues bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

NOTE 4 – INTER-FUND LOAN

The City has two inter-fund loans from the Enterprise Fund – Electric to the General Fund and Special Revenues Road Use for the purpose of purchasing a fire truck and snow plow for the Road Use fund. The total amount borrowed is \$100,242, of which \$19,418 was advanced in the fiscal year ended June 30, 1999, and \$80,824 was advanced in the fiscal year ended June 30, 2000 for the fire truck. The snow plow was purchased December 18, 2006, for \$89,135, loan payment of \$1,641.56 a month with a 4% interest rate. Repayment is as follows:

Year Ending June 30,	General Fund		Road Use		Total to	
	Fire Truck Loan		Snow Plow Loan		Electric Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$8,908	\$1,918	\$17,447	\$2,252	\$26,355	\$4,170
2010	9,317	1,509	18,157	1,542	27,474	3,051
2011	9,745	1,081	18,897	802	28,642	1,883
2012	10,193	633	9,736	108	19,929	741
2013	8,522	209	-	-	8,522	209
	\$46,685	\$5,350	\$64,237	\$4,704	\$110,922	\$10,054

In the year ended June 30, 2008, principal paid was \$25,280, and interest paid was \$5,245.

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.9% of their annual covered salary and the City is required to contribute 6.05% of annual covered payroll, except for police employees, in which case the percentages are 5.64% and 8.47%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$14,549.

NOTE 6 – RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2008 were \$29,436.

NOTE 6 – RISK MANAGEMENT (CONTINUED)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with Iowa Municipalities Worker's Compensation Association (IMWCA). The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,237
Sick leave	38,286
Total	<u>\$ 40,523</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

NOTE 8 – RELATED PARTIES

The City had business transactions between the City and City officials totaling \$3,930 during the year ended June 30, 2008.

NOTE 9 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue: Emergency Levy	\$ 3,229
	Permanent Expendable Trust	16
	Enterprise: Electric	25,000
		<u>\$ 28,245</u>
Special Revenue: TIF	Special Revenue: Local Option Sales Tax	<u>\$ 100,000</u>
Enterprise: Water	General Fund	\$ 87,000
	Enterprise: Electric	11,775
		<u>\$ 98,775</u>
Capital Projects	Special Revenue: Local Option Sale Tax	\$ 155,000
	Special Revenue: TIF	100,000
	Enterprise: Electric	10,000
		<u>\$ 265,000</u>
Total		<u>\$ 492,020</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 10 – COMMITMENTS

The City entered into contracts for a water and storm sewer improvement for a total of \$255,797. At June 30, 2008, \$203,316 was paid on these contracts.

SUPPLEMENTAL INFORMATION

City of Fairbank, Iowa

**Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds**

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 130,004	\$ -
Tax increment financing collections	301,085	-
Other city tax	73,953	-
Licenses and permits	2,662	255
Use of money and property	55,262	45,163
Intergovernmental	144,763	4,164
Charges for service	68,951	1,449,966
Special assessments	602	202
Miscellaneous	23,256	6,248
Total receipts	<u>\$ 800,538</u>	<u>\$ 1,505,998</u>
Disbursements:		
Public safety	\$ 134,348	\$ -
Public works	119,031	-
Health and social services	975	-
Culture and recreation	141,354	-
Community and economic development	2,139	-
General government	32,124	-
Debt service	332,166	-
Capital projects	259,286	-
Business type activities	-	1,460,273
Total disbursements	<u>\$ 1,021,423</u>	<u>\$ 1,460,273</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ -220,885</u>	<u>\$ 45,725</u>
Other financing sources, net	<u>-52,000</u>	<u>52,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>\$ -272,885</u>	<u>\$ 97,725</u>
Balances beginning of year	742,197	735,134
Balances end of year	<u>\$ 469,312</u>	<u>\$ 832,859</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 130,004	\$ 128,960	\$ 128,960	\$ 1,044
301,085	294,264	294,264	6,821
73,953	63,150	72,650	1,303
2,917	2,340	2,630	287
100,425	54,481	65,631	34,794
148,927	124,053	171,628	-22,701
1,518,917	1,413,300	1,429,936	88,981
804	600	801	3
29,504	48,301	48,981	-19,477
<u>\$ 2,306,536</u>	<u>\$ 2,129,449</u>	<u>\$ 2,215,481</u>	<u>\$ 91,055</u>
\$ 134,348	\$ 128,518	\$ 133,717	\$ -631
119,031	105,295	123,635	4,604
975	975	975	-
141,354	145,775	154,868	13,514
2,139	31,100	30,290	28,151
32,124	33,940	34,342	2,218
332,166	149,383	332,166	-
259,286	165,500	310,000	50,714
1,460,273	1,354,246	1,517,295	57,022
<u>\$ 2,481,696</u>	<u>\$ 2,114,732</u>	<u>\$ 2,637,288</u>	<u>\$ 155,592</u>
\$ -175,160	\$ 14,717	\$ -421,807	\$ 246,647
-	-	-	-
\$ -175,160	\$ 14,717	\$ -421,807	\$ 246,647
1,477,331	1,232,723	1,232,723	244,608
<u>\$ 1,302,171</u>	<u>\$ 1,247,440</u>	<u>\$ 810,916</u>	<u>\$ 491,255</u>

City of Fairbank, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$522,556. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the public safety function.

City of Fairbank, Iowa

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Non-major Governmental Funds**

As of and for the year ended June 30, 2008

	Special Revenue
	Emergency Levy
Receipts:	
Property tax	\$ 3,229
Use of money and property	-
Charges for service	-
Total receipts	<u>\$ 3,229</u>
Disbursements:	
Operating:	
Culture and recreation	\$ -
Total disbursements	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 3,229</u>
Other financing sources (uses):	
Operating transfers in	\$ -
Operating transfers out	-3,229
Total other financing sources (uses)	<u>\$ -3,229</u>
Net change in cash balances	\$ -
Cash balances beginning of year	-
Cash balances end of year	<u>\$ -</u>
Cash Basis Fund Balances	
Unreserved:	
Special revenue funds	\$ -
Permanent fund	-
Total cash basis fund balances	<u>\$ -</u>

See accompanying independent auditor's report.

Permanent		
Non-Expendable Trust	Expendable Trust	
Cemetery Perpetual Care	Cemetery	Total
\$ -	\$ -	\$ 3,229
-	1,164	1,164
1,250	-	1,250
\$ 1,250	\$ 1,164	\$ 5,643

\$ -	\$ 91	\$ 91
\$ -	\$ 91	\$ 91

\$ 1,250	\$ 1,073	\$ 5,552
----------	----------	----------

\$ -	\$ -	\$ -
-	-16	-3,245
\$ -	\$ -16	\$ 3,245

\$ 1,250	\$ 1,057	\$ 2,307
27,592	15,160	42,752

\$ 28,842	\$ 16,217	\$ 45,059
-----------	-----------	-----------

\$ -	\$ -	\$ -
28,842	16,217	45,059

\$ 28,842	\$ 16,217	\$ 45,059
-----------	-----------	-----------

City of Fairbank, Iowa
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Urban renewal tax increment financing (TIF) revenue bonds:			
TIF-Revenue Bond	October 27, 2003	2.5-5.1%	915,000
TIF-REC Loan	December 1, 2007	0.00%	300,000
			<u>\$1,215,000</u>
Revenue notes:			
Natural Gas System Construction	August 16, 2001	5.30%*	\$390,000
Electric Loan	January 12, 2007	0.00%	65,000
			<u>\$455,000</u>

* Under variable rate provisions of the note, interest can never exceed a maximum rate of 7.5%.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$896,644	\$-	\$307,724	\$588,920	\$24,442	\$-
-	300,000	-	300,000	-	-
\$896,644	\$300,000	\$307,724	\$888,920	\$24,442	\$-
\$75,265	\$-	\$64,216	\$11,049	\$2,444	\$-
60,000	-	12,000	48,000	-	-
\$135,265	\$-	\$76,216	\$59,049	\$2,444	\$-

City of Fairbank, Iowa

Bond and Note Maturities

June 30, 2008

Urban Renewal Tax
Increment Financing
(TIF) Revenue Bonds

(H) Revenue Bonds					
Year Ending June 30,	Revenue Bond		REC Loan		Totals
	Issued October 27, 2003		Issued December 1, 2007		
	Interest Rate	Amount	Interest Rate	Amount	
2009	3.5%	\$-	0.0%	\$37,500	\$37,500
2010	3.7%	-	0.0%	37,500	37,500
2011	3.9%	100,000	0.0%	37,500	137,500
2012	4.1%	100,000	0.0%	37,500	137,500
2013	4.3%	100,000	0.0%	37,500	137,500
2014	4.5%	100,000	0.0%	37,500	137,500
2015	4.7%	100,000	0.0%	37,500	137,500
2016	4.9%	88,920	0.0%	37,500	126,420
		<u>\$588,920</u>		<u>\$300,000</u>	<u>\$888,920</u>

Revenue Notes

Revenue Notes					
Year Ending June 30,	Natural Gas System Construction		Butler Co Electric Loan		Totals
	Issued July 23, 1993		Issued January 1, 2007		
	Interest Rate	Amount	Interest Rate	Amount	
2009	5.3%	\$11,049	0.0%	\$12,000	\$23,049
2010	-	-	0.0%	12,000	12,000
2011	-	-	0.0%	12,000	12,000
2012	-	-	0.0%	12,000	12,000
		<u>\$11,049</u>		<u>\$48,000</u>	<u>\$59,049</u>

City of Fairbank, Iowa

Schedule of Receipts By Source and Disbursements By Function –
All Governmental Funds

For the Last Two Years

	2008	2007 (Unaudited)
Receipts:		
Property tax	\$ 130,004	\$ 130,435
Tax increment financing collection	301,085	281,921
Other city tax	73,953	82,013
Licenses and permits	2,662	2,295
Use of money and property	55,262	22,276
Intergovernmental	144,763	126,824
Charges for service	68,951	81,151
Special assessments	602	602
Miscellaneous	23,256	66,991
Total	<u>\$ 800,538</u>	<u>\$ 794,508</u>
Disbursements:		
Operating:		
Public safety	\$ 134,348	\$ 145,907
Public works	119,031	99,447
Health and social services	975	975
Culture and recreation	141,354	141,862
Community and economic development	2,139	18,037
General government	32,124	30,205
Debt service	332,166	182,245
Capital projects	259,286	180,779
Total	<u>\$ 1,021,423</u>	<u>\$ 799,457</u>

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairbank, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated November 26, 2008. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Fairbank's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Fairbank's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Fairbank's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies, including deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Fairbank's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Fairbank's financial statements that is more than inconsequential will not be prevented or detected by the City of Fairbank's internal control. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Fairbank's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe item II-A-08 was a material weakness.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Fairbank's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairbank's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Fairbank's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairbank and other parties to whom the City of Fairbank may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Fairbank during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Keith Oltrogge
Certified Public Accountant

November 26, 2008

City of Fairbank, Iowa

Schedule of Findings

Year ended June 30, 2008

Part I – Summary of the Independent Auditor's Results:

- a) An unqualified opinion issued on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting.
- b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- II-A-08 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I realize a segregation of duties is not possible where there is only one full-time employee. Therefore, it is the responsibility of the City Council and City Treasurer to oversee the City Clerk's procedures sufficiently to detect errors or irregularities within a timely period.

Recommendation – I recommend that the City Council again be made aware of the risks inherent with a lack of a segregation of duties and that the City Council continue to take an active role in the internal control of the City's funds.

Response – Since we only have one full-time clerk, all the duties are overseen by the Council and therefore, we feel we are abiding by the Auditor's recommendations.

Conclusion – Response accepted.

- II-B-08 Annual Financial Statements – The ability to apply generally accepted accounting principles to the financial statements and determine the sufficiency of the footnote disclosure is a necessary aspect of internal control over the City's financial reporting process.

The City does not possess an individual with the appropriate expertise to apply generally accepted accounting principles to the financial statements and to draft and determine the sufficiency of the necessary disclosures.

The City has a limited number of employees and it is not cost beneficial to employ an individual with this type of expertise and knowledge.

The internal financial statements prepared by the City are not prepared in accordance with generally accepted accounting principles and do not contain the required footnote disclosures.

Recommendation – This is a common control deficiency of most small Cities and is often not corrected due to cost benefit considerations. I could assist you in gaining the necessary knowledge and skills if you determine that this is a control deficiency that the City would like to address.

Response – We will consult with you as needed on financial statement considerations.

Conclusions – Response accepted.

City of Fairbank, Iowa

Schedule of Findings

Year ended June 30, 2008

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in public safety functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do this.

Conclusion – Response accepted.

IV-B-08 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transcription Description	Amount
Ron Woods, Council Member Owner – Woods Construction	Services by council approval	<u>\$3,930</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council member does not appear to represent conflicts of interest.

IV-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Fairbank, Iowa

Schedule of Findings

Year ended June 30, 2008

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-G-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-08 Economic Development – The City paid \$192 and \$2,825 to Fayette and Buchanan County Economic Development Committees which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the Development Committee to provide documentation of how the funds were used to accomplish economic development activities.

Response – We will do this.

Conclusion – Response accepted.